

Cabinet

10 December 2020

2021/22 Budget and 2021-26 Medium Term Financial Strategy – Background Information and Proposals from Corporate Board

Addendum

1. Background

- 1.1. On Wednesday 25 November 2020, the Chancellor of the Exchequer Rishi Sunak MP, made a statement to the House of Commons on the 2020 Spending Review (SR2020).
- 1.2. As Members will be aware, the Chancellor's statement included additional council tax flexibilities for local authorities and a range of additional one-off grants to support activity in response to the covid-19 pandemic and to share the financial impact of the pandemic to date on local authorities finances more generally.
- 1.3. The report to Cabinet was drafted before these announcements and rather than delay the release of the key information and advice that will underpin the 2021/22 Budget and 2021-26 MTFS until the full implications are understood this addendum has been prepared. It sets out, for Members, the estimated financial impact of the proposals in the Chancellor's statement on the Council's emerging 2021/22 Budget and 2021-26 MTFS proposals.
- 1.4. The actual financial impact of the Chancellor's statement, when confirmed through the Local Government Finance Settlement, will be consolidated into the Budget and MTFS Update report due to be considered by Cabinet in January.
- 1.5. The areas covered in this addendum are:
 - Council tax referendum limits and the option to levy an additional 3% levy for social care;
 - The one-off grant to part-fund council tax/business rates collection fund losses due to Covid-19;
 - The new £670m un-ringfenced grant to offset some of the increase in council tax support payments to those on low incomes;

- The additional social care grant to be paid in response to covid-19;
- The proposed public sector pay freeze for 2021-22;
- The increase in the National Living Wage;
- The additional Covid-19 un-ringfenced Emergency Response Grant; and
- The extension of the sales, fees and charges compensation scheme.

2. Council Tax Referendum Limits

- 2.1. SR2020 gave social care authorities the ability to raise an additional social care precept of 3% in addition to the 2% basic precept. Whilst no such announcement was included in the SR2020 document, the Office of Budget Responsibility's accompanying document suggests that local authorities may have the option to defer some of these increases to 2022-23. Further details are expected to be included in the Provisional Local Government Finance Settlement.
- 2.2. The additional 3% precept would increase the resources available to support the MTFs over the next two years by around £9.7m, depending on how the increase is phased across the two years.
- 2.3. The net additional spending allocations included in the MTFs proposals are £15.848m in 2021/22 and £9.005m in 2022/23, as shown in Table 1. Therefore, the taking the 3% additional levy would not require additional spending allocations to be made. Instead it would provide Members with an element of choice about whether to invest the funding in services to meet priorities or allow some of the savings options in Appendix D not to be supported. If the use of the levy is restricted to adult social care, then there would be a need to phase the levy across two years unless additional investment were made, or the specific service savings reduced.

Table 1: Additional Social Care Allocations in the MTFs Proposals			
		2021/22	2022/23
		£m	£m
Adult Social Care	Inflation	4.942	5.116
	Spending pressures	3.731	3.680
	Savings	(1.867)	(2.786)
Total		6.806	6.010
Children's Services (including children with disabilities)	Inflation	1.341	1.368
	Spending pressures	9.646	1.937
	Savings	(1.945)	(0.310)
Total		9.042	2.995
Social Care Total		15.848	9.005

3. Tax Income Guarantee Scheme

- 3.1. The Tax Income Guarantee Scheme is a new reimbursement scheme, providing an estimated £762m to compensate local authorities for 75% of irrecoverable losses of council tax and business rates in 2020-21. that would otherwise need to be funded through local authority budgets in 2021-22 and later years (the collection fund deficits.)
- 3.2. The MTFs proposals currently include provision for an £11m collection fund deficit over the next two years. Therefore, any grant received will mitigate the risk that our deficits could be higher than estimated or will allow some of the reserves currently being set aside to meet the deficit to be released to provide additional short-term flexibility. The basis on which this funding will be allocated will be announced as part of the Local Government Finance Settlement.

4. Council Tax Support

- 4.1. SR2020 also includes additional funding (£670m) for additional Localised Council Tax Support to help local authorities support the more than 4 million households that are least able to afford council tax payments. The latest national figures show claimant numbers in the first six months of the year are 10% higher than for the equivalent period, although the figures vary between authorities. The equivalent figures for each of the districts/boroughs in Warwickshire are higher than this, ranging from 12% (Nuneaton and Bedworth) to 28% (Warwick). £500m of the additional funding will be allocated to local authorities.
- 4.2. Changes in the level of council tax support payments to households' feeds through the local government funding system as increases/decreases in the council tax taxbase. Therefore, any grant payment received by the districts/boroughs as the billing authorities will mitigate the downside risk around the taxbase. The impact of this funding will not be known until the district/boroughs inform us of the taxbases for 2021/22 in late January 2021.

5. Social Care Funding

- 5.1. In addition to the potential to raise an additional 3% council tax levy for social care, local authorities will also receive an additional £300m social care grant. £150m of this is new money and £150m has been redirected. The basis of the

new allocation and the funding that has been redirected will form part of the provisional Local Government Finance Settlement in December 2020. All other social care grants will continue at their 2020-21 level, as assumed in the MTFS.

6. Public Sector Pay Freeze

- 6.1. The government intends to freeze the majority of public sector pay for 2021-22. There will be exceptions for those working in the health service and those who earn less than £24,000 will receive a pay rise of at least £250.
- 6.2. Within the local government sector pay increases are agreed by the National Employers Organisation (part of the LGA) in discussion with the trade unions. It will be for these bodies to consider to what extent local government will follow the restraint outlined by the Government.
- 6.3. For Warwickshire, a pay freeze but with a £250 award for those earning less than £24,000, would reduce the provision for inflation needed in 2021/22 by £2.428m.

7. National Living Wage

- 7.1. It was announced that the National Living Wage will increase by 2.2% from April 2021. This will impact on the Council through increased contract costs, primarily in the adult social care sector. The inflation provisions shown in Table 1 already include a provision for these costs and therefore this announcement should not increase the cost pressures already included in the MTFS.

8. Covid-19 Response Grant

- 8.1. A further £1.55bn of un-ringfenced grant to local authorities for the pressures expected to emerge in the first few months of 2021-22 as a result of Covid-19. The formula that will be used to distribute this funding is yet to be confirmed and it is expected that allocations will be announced as part of the provisional Local Government Finance Settlement. If the Government releases all the funding and uses the same distribution methodology as used for the last round of covid-19 grant, it could provide £10.7m additional one-off funding.
- 8.2. This funding is not included as part of the MTFS. However, there is potential, depending on whether further additional costs as a result of the pandemic

materialise over the coming months, that is funding could be used to meet some of the one-off costs associated related to covid-19 included in the proposals in the Cabinet report. A further update on the potential to fund some of the additional spending pressures with the grant will be included in the 2021-22 Budget and MTFS Update report to Cabinet in January 2021.

9. Sales, Fees and Charges Compensation Scheme

- 9.1. The final covid-19 related announcement in SR2020 was the extension of the Sales, Fees and Charges Compensation Scheme (which refunds 75% of eligible income loss beyond a 5% threshold) into the first three months of the next financial year. We received £1.3m from this scheme for lost income between April and July 2020, but the amount varies depending on the income lost compared to the budget.
- 9.2. This is not additional income to the Council but rather compensation for budgeted income that has been foregone. However, the MTFS does include some relatively small allocations to offset the loss of income in services that could instead be partially funded from this grant. The extension of the scheme also reduces the risk to budgeted income levels from covid-19 in 2021-22.

10. Summary

- 10.1. The key conclusions from the announcements made by the Chancellor in SR2020 are that:
 - The ability to raise additional council tax through the adult social care levy provides Members with the opportunity to remove some of the savings options; and
 - The one-off grant allocations in response to the impact of covid-19 on both the Council's resource base and spending pressures provides increased resilience to the proposals and reduces the level of risk and uncertainty in the short-term.
 - Over the medium-term the key risks and uncertainties outlined in the Cabinet report remain.